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CITY OF WALNUT CREEK

JULY 12, 1978

THE TWO-YEAR PROGRAM OPTION BUDGET PROCESS

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THE TWO YEAR PROGRAM OPTION BUDGET PROCESS: BACKGROUND

The process of developing a budget is critical to the control and direction of government operations. It is not surprising, therefore, to see the continuing interest and effort directed toward developing budget processes in public organizations to expand the decision-making opportunities for both program managers and elected policy-makers.

The traditional budget approach for local government has focussed on the line-item, cash-flow system of fiscal management. Although it is a simple tool to understand and put to use, the line-item budget looks toward expenditures of funds rather than results or activities of programs.

In the past few years, more results-oriented alternatives to this type of budgeting have evolved. These alternatives include performance budgeting, Planning, Programming Budgeting Systems ("PPBS"), and most recently, Zero-Based Budgeting (ZBB).

All of these budget processes share a common orientation. They seek to bring to light more meaningful and definitive information with which program managers and elected officials may intelligently allocate resources. In addition, each type of budget process is more-or less-effective in relation to the type of government arena in which it operates. Thus, the budget process, as a decision-making tool, should be matched to the unique constraints and requirements inherent in each type of public organization.

BUDGET DEVELOPMENT IN WALNUT CREEK

The budget process in the City of Walnut Creek has been continually evolving over the past five years. As in many cities, prior to 1973, the primary decision-making tool for fund allocation choices had been the basic line item budget. However, the line item budget often led Council

discussion to relatively peripheral concerns such as whether or not a particular piece of equipment should be purchased, or a particular position should or should not be authorized. Characteristic of most city budgeting processes used to this time, little light fell on the more basic issues of program service levels, program content, or total program cost.

In 1973 the Walnut Creek City Council and management staff began to develop a program budget to address these more fundamental issues. We wanted to establish a system which would emphasize City program goals and objectives, and thereby heighten the City Council's level of involvement in budgetary decision-making. Since then, a process of continual refinement has produced a budget which combines the elements of program budgeting with the techniques of Zero Base Budgeting. In addition, the system includes a most important but often omitted vehicle for public input, in an effort to make the budget more responsive to the needs of the total community.

As it gradually refined its fiscal allocation process, the City Council found the budget-making to be, for all intents and purposes, a year-round fiscal exercise. At about the same time the Council was publishing its final budget for one year, the process of developing the budget for the succeeding year would begin anew. It also seemed to those involved that the budget period, the usual fiscal year, did not lend itself well to some City operations. For example, summer programs would often overlap two budget periods, while other programs would find themselves mid-stream in operation before total funding was approved.

With this consideration in mind, the City felt a two-year budget period would be more appropriate to our situation, provide more fiscal

continuity, and present an opportunity for more thoughtful decision-making. July 1, this year signaled the City's operation under its first Two-year Program Option Budget for the fiscal years 1978-80.

PROGRAM OPTION BUDGETING: A DESCRIPTION OF WALNUT CREEK'S APPROACH

Program Option budgeting is a response to the budgeting needs of small local agencies. It is designed to place the City Council in a leadership role in the budget process, by providing for it a positive opportunity to establish preliminary budget goals and to make decisions based upon prepared alternatives. It shifts the Council's involvement in budget preparation away from a reaction to staff work toward an overall policy-making process.

The program option, when coupled with a two-year time frame, allows more time to develop program alternatives and consider public input. It diminishes the routine and repetitive aspects of budget development, and replaces them with thoughtful evaluation and planning. Since the two-year time frame commits resources over a longer, though definitive, period of time, it also makes the resulting budget document a more meaningful resource allocation plan.

While the two-year time frame helps the Council prepare alternatives to programs, the public input element sensitizes the budget process to the community. Input from the public allows the Council to obtain and systematically evaluate community attitudes, goals, and priorities. Designed to reach a broad citizen base, this process presents the Council with an opportunity to see just how well it represents the tone of the community.

OBTAINING PUBLIC INPUT: A CRITICAL ELEMENT IN THE BUDGET PROCESS

The first steps toward obtaining input is to recognize its importance

and to seek it out. The Walnut Creek City Council initially surveyed selected groups in the community for their opinions on directions for the budget. These participants included a 1% random sample of the community (500 citizens), a group of approximately 200 community leaders, members of the City Council, and City Department Heads. While the survey of the 1% citizen sample was conducted by telephone, the civic leaders, members of the Council and City staff were asked to complete a written questionnaire. The results from each group were tabulated separately in order to draw comparisons between them. Survey participants were asked questions about their preferences for levels of city services and expenditures, relative to the budget process.

The survey asked seven basic questions about city services:

1. It asked if the citizen used particular city facilities such as the bus system, swimming pools, recreation programs, museums, educational programs, art gallery and theater.
2. It asked about the degree of satisfaction with city services. These included street maintenance, storm drain systems, level of police patrolling, control of traffic flow, garbage pickup, cable television, recreation programs, and maintenance of city parks.
3. The survey also asked for opinions on how revenue sharing money should be spent: for capital improvement projects, to expand existing city programs, to add new city programs, or to decrease taxes.
4. The questionnaire asked participants to suggest priorities for physical improvements in the Capital Improvement Program: street systems, flood control projects, civic buildings, and park and recreation facilities.

5. The survey also asked for information about participant's preferred ratio of service to tax level. The choices were to increase service levels through increased taxes, to decrease service levels and reduce taxes, to shift priorities in services and maintain the tax level, or to hold the line on both services and taxes.
6. The survey groups were also asked to consider service priorities in light of a hypothetical reduction in funding levels. The question required the citizen to indicate which service they felt should be cut back most, second most, etc., throughout the five areas specified: Police services, street maintenance, Parks and Recreation facility maintenance, Leisure Service programs, and Civic Arts programs.
7. Finally, the survey provided the citizen with a hypothetical reduction of \$100 per household in each of these service areas. They were given a choice to determine how much of the \$100 should be deducted from each of these service areas.

In addition to responses to the basic questions asked, numerous opinions, suggestions, and comments were received from participants. This input was summarized and provided to Council as part of the survey results.

SETTING GOALS: THE BUDGET PROCESS

The City Council met in December 1977 to establish overall goals for the city's first two-year budget. The session addressed such specific areas as tax levels and revenue sources. The Council reviewed a projection of expected revenue for the succeeding four-year period, evaluated each of the city's budgeting programs, and identified areas of particular interest.

The Program Option Budget format which has been developed contained two key elements to describe program options. Under the general category of level of service, these two elements were termed "Present" and "Basic".

The PRESENT level represented the cost of continuing current programs "as is" over the next two years. The BASIC level, however, represented a service level less than that for the PRESENT level, approximating 60% to 80% of the PRESENT level of service. It, however, had to reflect a viable and workable program. In no case was it intended to reduce a program to the point of being ineffective or unrealistic.

During its initial goal-setting session, the Council reviewed each program area in relation to these two levels of service. It identified in each program particular areas, goals, or objectives it wished to be considered in the development of the program options. In discussing programs with appropriate department heads, the Council also identified those areas for which options in addition to BASIC and PRESENT should be considered. These additional options were specified as "BASIC plus 1," "BASIC plus 2," PRESENT plus 1," "PRESENT plus 2," etc. in relation to their level of service.

This early goal-setting session permitted the Council to generally specify their areas of interest and give direction to staff on how the budget should be prepared for each program. It also eliminated unnecessary staff work and time in developing more than two program budget options unless specifically desired by Council. In this way, emphasis and energy was directed toward particular programs, rather than all areas of the budget.

DEVELOPING THE OPTIONS: REFINING THE INSTRUMENT

During the succeeding couple of months, staff developed, "decision packages" for each of the programs. With few exceptions, each program area was further refined into the BASIC and PRESENT levels of service. Only those areas specifically identified by Council required additional alternatives.

Each "decision package" contained the following information for the Council to review: 1) a Statement of Purpose of the activity, 2) the

consequences of not performing the activity, 3) alternative levels for performing the activity, 4) alternative methods of performing the activity, and 5) the advantages and disadvantages of these alternative levels of performance.

Decision packages were developed to present the Council with identified costs, performance standards and objectives for each particular program. Each level of service - BASIC to PRESENT plus - identified additional performance standards or objectives, and the costs associated with each subsequent service level. The decision package also included the cumulative costs of these succeeding higher levels of service.

DECISION-MAKING: CHOOSING BETWEEN PROGRAM OPTIONS

During the period that staff devoted to preparing program options, the City Council was reviewing material which emerged from the citizen survey. The Council used this additional information during the development of the budget to lend meaningful input into the decision making process.

When staff was ready to present their "decision packages" in response to the earlier goal-setting session with City Council, the Council held a workshop to evaluate the program options which had been developed. Here, the Council discussed each individual program and alternative level of service with the Department Director. The Council wanted specific information about program services, their levels, and the costs of each incremental program service level. In most cases, the Council was able to make a preliminary decision on the basis of these "decision packages" when coupled with recommendations from Department Directors as to the appropriate level of service for each program. In some instances, the Council asked for additional information on a particular option and, in other cases, asked that an additional option or service level be developed for later consideration.

Since Walnut Creek is a smaller city, with a population of approximately 50,000, the Council can maintain a knowledgeable grasp of city operations. In addition, there is often no clear way to pit the value of one program in one department against that of another program in another department. Given these two factors, the City Council chose to avoid ranking the respective value of program elements within the City. Each department's program was evaluated independently by the Council on its own merits, and in relation to the overall activity in that department. (For example, the Council felt it unnecessary to compare and evaluate the value of a recreational program against the value of a particular level of street maintenance or police service on the community.)

After this decision-making workshop, staff followed the normal budget development process, further refining goals, objectives, and costs on the budget alternatives selected by the members of the Council. These alternatives were then used to produce the proposed budget for the fiscal years 1978-80.

In May 1978 the Council received the proposed budget. It again reviewed all of the programs in their refined form as well as the total budget format. It evaluated overall expenditure in relation to anticipated revenues. It made its final decisions on program options, and placed the proposed budget in its final form.

In June 1978 the Council scheduled public hearings on the proposed two-year budget. It heard public testimony from citizens' groups as well as City Commissions and Committees, which was used to evaluate the adequacy of present service levels and the impact of the proposed budget on existing city programs. After considering the public testimony, the Council was ready for final adoption of the budget for implementation during fiscal years 1978-80.

APPLICATION TO JARVIS-GANN: TESTING THE FLEXIBILITY OF THE OPTIONS

In addition to the normal budget process, the City Council had also considered the impact of the Jarvis-Gann Initiative. The Council held a special budget session to review their funding decisions against the reduced revenues which would result should the Jarvis-Gann Initiative be approved. The Council based this contingency budget on decisions made through the Program Option Budget process.

Although the normal budget process made it clear that adequate revenues were available to continue the City's present levels of service in all program areas, this was not the case should Proposition 13 pass. The impact projected with the passage of the Jarvis-Gann Initiative indicated that the City would suffer a revenue loss of nearly \$1,650,000 per year from revenue the Council has previously projected. Adjusting for capital projects and excess funds not previously allocated, the Council recognized that it would still be short approximately \$1,000,000 in appropriations for the program levels identified during the regular decision-making process. An additional review of options and revenue sources led the Council to select reduced levels of service in some cases, while in others, it identified additional or increased revenue sources to offset the anticipated loss in revenue. The Council placed some programs on a self-funding basis.

The experience and information the Council had obtained during the development of the Program Option Budget greatly aided them in the development of a Jarvis Management Plan. The public input received from the city-wide survey helped the Council to determine its priorities and areas for reduction. This process simplified the Council's task, and made possible the informed judgments necessary to develop such a reduced spending program.

PROGRAM OPTION BUDGET VS. ZERO BASE BUDGETING: A FINAL COMPARISON

Although the Program Option Budget uses some of the techniques of Zero Base Budgeting, it can be clearly distinguished from it.

Municipal experience with ZBB has frequently involved considerable, unnecessary paper work and has a tendency to limit Council decision-making to the marginal funding issues. Major policy decisions are left to staff, as the volume of material renders impossible digestion and administration by the policy-making body. The process often generates so much work and can be so difficult to manage as to discourage involvement with it. Finally, ZBB is essentially a reactive approach to budgeting, with a grocery list of staff-prepared options from which the Council selects.

The budget process in Walnut Creek, however, has been designed to strengthen the existing role of the City Council. By providing a positive means for the Council to develop its own budget, this process avoids returning the City Council to a reactive position. While Zero Base Budgeting relies on staff work to wade through data and come to budget decisions, the Walnut Creek City Council developed its own budget. It set the goals and directions for the overall budget, as well as for each individual program. As a part of this process, the Council identified the numbers and the types of options it wished developed for future decision-making.

The Council also solicited, received and responded to direct input from the community in this budget decision-making process.

Finally, decision-options were limited to a manageable number for effective decision-making, and such decision-making was maintained at the Council level rather than delegated to staff.

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The Council was successful in its primary role in the budget process by giving positive direction to City staff rather than reacting to staff work.

LOOKING AHEAD:

In the search for improvements to our budgeting process, we found need for basic longer-range expenditure and revenue forecasting coupled with increasing the accuracy of shorter-range revenue estimates. With the passage of Jarvis-Gann, such need significantly increases. In the coming months, we will undertake an effort to develop a revenue forecasting model which reduces dependency on generalizing estimates. We also plan to develop improvements to costing out the municipal services in order to insure revenues received reflect a specific policy determination on the portion, if any, such services are to be subsidized by the City.

In summary the Two-Year Program Option Budget has allowed the City Council to maintain its budget process at a manageable level, to include a public input element, and to establish a budget process which can be used effectively on a regular basis. It is a process which truly represents their policies, their decisions, and their programs. It is truly their budget.

DECISION PACKAGE

PROGRAM	Department		Division		
	Budget No.	Required Resources	Incremental Cost	Cumulative Cost	
Level		Work Hours			
		Volunteer Hours			
		Personnel Services \$			
Goal/Purpose		Services & Supplies \$			
		Capital Outlay \$			
		Total Expenditures \$			
		Interdepartment Charges \$			
		Program Revenues \$			
		Net Operating Budget \$			
Performance Standards/Objectives					
Alternative Methods to Provide this Level					
Advantages/Benefits of this Level and Method					
Consequences of not Funding					

DECISION PACKAGE

PROGRAM PATROL Level BASIC	Department POLICE		Division FIELD OPERATIONS	
	Budget No.	Required Resources	Incremental Cost	Cumulative Cost
Goal/Purpose To provide a local police service capable of responding to emergencies and "called for" police service for the preservation of life and property in the community.		Work Hours		140,400
		Volunteer Hours		
		Personnel Services & Supplies \$		2,194,820
Performance Standards/Objectives Provide a response within 7 minutes to 95% of emergency calls. Provide a response within 30 minutes to 95% of all calls. Investigate criminal offenses to the degree possible. Provide minimal preventive patrol time.				275,376
		Capital Outlay \$		
				174,685
		Total Expenditures \$		2,644,881
		Interdepartment Charges \$		
		Program Revenues \$		374,660
		Net Operating Budget \$		2,270,221
Alternative Methods to Provide this Level Contract with an outside agency for patrol service at approximately \$40,497 per man per year. Utilize Reserve Officers in place of regular officers. This alternative requires the implementation of the present level of Budget #421 (Reserve Program). This alternative would reduce service due to less control and necessary training. Another alternative is to further reduce the number of officers, which would further deteriorate response capabilities and levels of service.				
Advantages/Disadvantages of this Level and Method This level provides local police service at a minimum cost for "called for" service based on a working team of six (6) officers plus one sergeant and supervision. This reduces the present level by 5 officers. It is essentially reactive and does not provide for any positive programs or extensive investigation capability.				
Consequences of not Funding Not comply with legal requirements to provide a police service.				

DECISION PACKAGE

PROGRAM PATROL	Level PRESENT	Department POLICE		Division FIELD OPERATIONS	
		Budget No.	Required Resources	Incremental Cost	Cumulative Cost
Goal/Purpose To maintain a highly skilled and adequately staffed police operation to respond to emergencies, to protect life and property, to maintain a highly visible presence, and to provide a high level of service to the community.			Work Hours	18,000	158,400
			Volunteer Hours		
Performance Standards/Objectives Provide a response within 5 minutes to 95% of emergency calls. Provide a response within 20 minutes to 95% of all calls. Maintain present level of crime prevention in the neighborhoods. Continue GUIDE Program at the elementary, intermediate, and high school levels. Provide involvement in crime prevention programs in the business community. Provide additional preventive patrol time. Increase criminal investigation capability.			Personnel Services \$	263,931	2,458,801
			Services & Supplies \$		275,376
			Capital Outlay \$	10,250	10,210
					174,685
			Total Expenditures \$	269,191	2,919,072
			Interdepartment Charges \$		
			Program Revenues \$		374,660
			Net Operating Budget \$	269,191	2,544,412
Alternative Methods to Provide this Level					

Any deployment below this level of service will revert the service back to the next level accordingly.

Advantages/Disadvantages of this Level and Method This level provides police service based on a working team of 7 officers plus one sergeant and supervision. This increment will provide for the beat officer to handle all misdemeanor and felony follow-ups, except fraud. It will provide for a higher police profile within the community and facilitate time for the officer to devote toward crime prevention by interfacing with homeowners, business owners, GUIDE Program and through crime prevention meetings with groups. This increment will further provide time for more sophisticated training and officer-initiated activities.

Consequences of not Funding

Crime prevention programs would be decreased. Training time would be less and the police profile within the community would be lower. Case follow-ups by beat officers would drop. The arrest and closure rate would decrease. Service levels would generally deteriorate.

DECISION PACKAGE

PROGRAM PATROL	Department POLICE		Division FIELD OPERATIONS	
	Budget No.	Required Resources	Incremental Cost	Cumulative Cost
Goal/Purpose To provide a highly skilled and well staffed police operation to respond to emergencies, to protect life and property, to maintain a highly visible police presence, and to provide a high level of service to and involvement in the community.	Level PRESENT PLUS 1	Work Hours	18,000	176,400
		Volunteer Hours		
		Personnel Services \$	263,981	2,722,782
Performance Standards/Objectives Provide a response within 3 minutes to 95% of emergency calls. Provide a response within 10 minutes to 95% of all calls. Increase preventive patrol time. Increase involvement in school resource program. Increase involvement in neighborhood cluster program. Increase involvement in business crime prevention programs. Provide for increased workloads expected from proposed annexations. Enhance the department's capability to conduct criminal investigations.		Services & Supplies \$		275,376
		Capital Outlay \$		10,210
				174,685
		Total Expenditures \$	263,981	3,183,1053
		Interdepartment Charges \$		
		Program Revenues \$		374,660
		Net Operating Budget \$	263,981	2,808,393

Alternative Methods to Provide this Level

Alternative would be to reduce traffic program by two officers and reassign to this program. Then add 3 additional officers to a cumulative total of 5 additional officers in Patrol. This adversely impacts the traffic program but reduces the cost of this program by 2 officer positions.

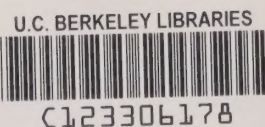
Advantages/Disadvantages of this Level and Method

This increment provides for five (5) additional officers to increase each of the five (5) teams from present seven (7) members to eight (8) plus a sergeant. It would facilitate more time for crime prevention, such as the GUIDE, and allow more involvement in the neighborhood cluster program. Further, it would enhance a higher visible police profile within the community and allow for more preventive patrol. The ability to create a police task force for special police problems would be increased. It would also be able to handle the increases in work load from proposed annexations without an overall general decrease in service levels.

Consequences of not Funding

The level of service would be maintained at the present level.

PROGRAM DESCRIPTION



PATROL

PURPOSE

To maintain a highly skilled and adequately staffed patrol operation to respond to emergencies, to protect life and property, to maintain a highly visible presence, and to provide a high level of service to the community.

SERVICE LEVEL

Respond within 5 minutes to 95% of emergency calls.
Respond within 20 minutes to 95% of all calls.
Maintain present level of crime prevention in the neighborhoods.
Provide crime prevention programs in the business community.
Continue GUIDE Program in the elementary, intermediate, and high schools.

APPROPRIATIONS

		Two Year Proposed 1978-80
Personnel Services		2,665,823
Services and Supplies		270,316
Capital Outlay		<u>3,381</u>
Total Expenditures		2,939,520
Less Interdepartmental Charges		<u>-0-</u>
Net Expenditures		<u><u>2,939,520</u></u>
Program Revenues	3,000	
General City Funds	<u><u>2,936,520</u></u>	

PERSONNEL

Position Title	Two Year Proposed		
	1976-77	1977-78	1978-80
Lieutenant	4	4	4
Sergeant	5	5	5
Police Officer	32	32	35 *

Total	<u><u>41</u></u>	<u><u>41</u></u>	<u><u>44</u></u>
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Work Hours	170,971.
Volunteer Hours	-0-

*Transferred from Investigations

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